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Macro Pulse for June 8

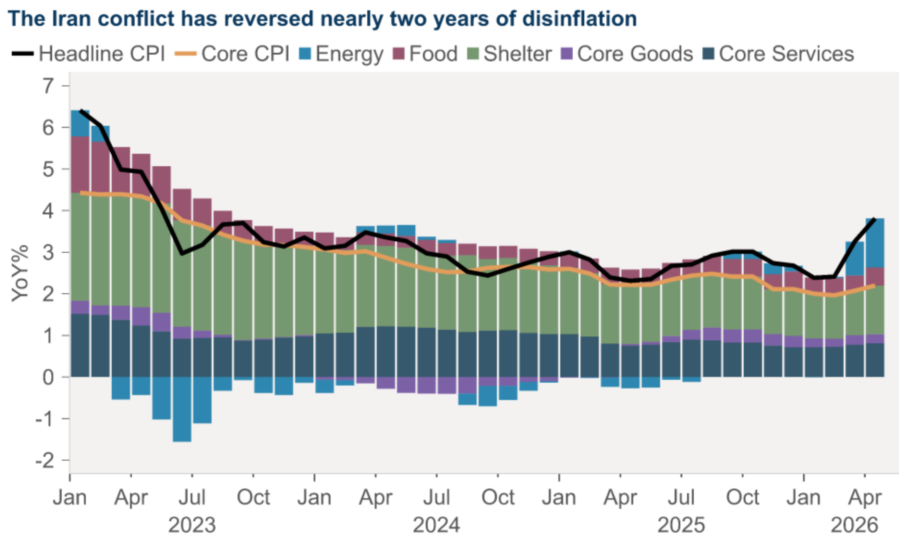
- The May jobs report came in well above expectations, with payrolls rising 172k versus 89k expected and the unemployment rate holding at 4.3%. Revisions were also positive for the first time since June 2025: the labor market remains solid, with all eyes now on the May CPI report to be released Wednesday. Consensus is now pricing a 25 bp rate hike by year-end. We continue to see inflation and economic activity risks more in balanced, keeping a potential rate *cut* on the table dependent on whether – and when – the Iran conflict de-escalates.
- A SpaceX listing, potentially raising $75B on Friday, would break IPO records at a time when demand for growth and AI-linked assets is strong. Early trading could be heavily influenced by flows rather than fundamentals, since index inclusion will happen in stages and require passive funds to buy SpaceX while selling other holdings. We don't expect this process to cause a major market selloff, but it could create some near-term dislocation in stocks used as funding sources. We will explore these implications in greater detail next week.

Tech Delivers, While Diplomacy Wavers

The continuation of the ceasefire between the U.S. and Iran may help reduce the immediate tail risk for macro outcomes, but it has not restored confidence in energy flows or shipping through the Strait of Hormuz. At the same time, markets have found support from stronger fundamentals: resilient U.S. macro data, strong earnings, and continued strength in AI-related investment. The result is a market environment in which technology is delivering – keeping financial conditions loose and sentiment afloat – even as geopolitical risk keeps the path forward more volatile and headline driven.

What's happened & what's next?

Since our last update, the market backdrop has become more constructive, but also more complicated. Amid the U.S.–Iran ceasefire, shipping confidence, energy flows, and commodity pricing have not normalized, leaving the Strait of Hormuz as the key signal to watch. A peace deal that leads to a sustained improvement in vessel traffic would help ease inflation concerns and reduce the risk premium embedded in energy markets. On the other hand, the risk of escalation means markets have to contend with higher oil prices and renewed supply-chain pressure.



At the same time, investors have found support in a stronger-than-expected fundamental backdrop. U.S. macro data have generally held up better than feared, labor markets remain resilient, business activity has improved, and corporate earnings, particularly in the technology sector, have continued to surprise to the upside. Robust AI-related demand and strong chip sales have helped lift some equity markets to new highs.

Yet this resilience has not been universal. Elevated global bond yields remain a risk to market performance, and the damage from the energy shock is increasingly evident outside the U.S., especially in Europe and parts of Asia, where dependence on imported energy has already created shortages and contributed to labor market weakness.

What's our view?

The market is caught between supportive fundamentals and rising macro risks. Earnings and AI-related investment continue to support financial asset performance, while higher yields and geopolitical uncertainty have increased risk across markets. Three forces continue to shape our view.

1. U.S. fundamentals signal ongoing strength

Regardless of the outcome with Iran, we expect the U.S. to lead global returns over the next several quarters. The U.S. retains a more favorable policy flexibility, stronger structural growth drivers, greater energy self-sufficiency, and a more resilient earnings backdrop. These factors do not make the U.S. immune to the shock, but do leave the U.S. better positioned than most major economies.

2. AI remains the market's clearest growth engine

The equity market continues to be powered by earnings strength, chip demand, and AI-related capital spending. This remains a concentrated theme, but it is also one of the few areas where fundamentals are still improving.

3. Policy normalization is becoming more challenging

Markets entered the year expecting most developed market central banks to gradually ease policy or remain on hold. The conflict with Iran has holistically reshaped this outlook. Higher energy prices, elevated freight costs, and broader input cost pressures are likely to keep inflation stickier than expected, reducing central banks' ability to ease policy. In the U.S., this may delay further Fed rate cuts, though we continue to expect one cut over the next 12 months. Outside the U.S., the picture is decidedly more hawkish. While growth remains weaker in Europe and Japan, rising energy costs are making it harder for central banks to provide support. As a result, both the ECB and the BoJ are moving closer to raising rates this month, generating clear downside risks to economic activity.

The main risk for markets

Markets are pricing in a U.S.-Iran deal before one has been reached. While the ceasefire has eased near-term pressures, the conflict is unresolved and the incentives for both sides remain challenging. If negotiations stall or tensions escalate, investors may price in more inflation uncertainty and higher risk premiums. That would not necessarily derail the U.S. economic expansion, but it would make the current rally more fragile, especially as markets price out geopolitical risks and growth outside the U.S. remains vulnerable.

Portfolio strategy

Portfolio construction now comes down to being more selective about where capital is deployed. Strong earnings, ample liquidity, and continued AI-related investment still support risk assets, but higher long-term yields and a more uncertain geopolitical backdrop make broad beta less compelling than earlier in the cycle.

We encourage participation in the U.S. earnings and AI cycle via a market-weight neutral allocation to U.S. growth equities, using latent cash for diversifying deployments into high quality small cap and ex-U.S. equities. In fixed income, higher yields create income opportunities, but rate volatility argues for discipline on duration. We see ongoing upside risks for long rates over the near term and would begin to extend portfolio duration with the U.S. 10-year yield closer to 4.60%-4.70%.

Upside inflation risks also increase the likelihood of tighter stock-bond correlations moving forward. In this environment, a structurally higher commodity allocation of 5%-15%, sourced from an equity sleeve, can be appropriate. Infrastructure exposure, whether through equity or bond approaches, can also allow investors to lean into inflation-resilient cash flows.

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